

COMMUNITY FOUNDATION FOR SOUTHWEST WASHINGTON
STATEMENT OF INVESTMENT POLICY AND GOALS

Purpose

The purpose of this document is to set forth the investment policy and goals of the Community Foundation for Southwest Washington (“CFSWW”). Generally, this investment policy is 1) to state the purpose of the investment program, 2) to outline the authority for promulgating this policy and the relationship among the Board of Directors, the Finance Committee, and the Investment Committee, 3) to provide for investment categories referred to as ‘pools,’ 4) to describe the monitoring and review of investment managers, 5) to provide investment guidelines, 6) permit the use of investment consultants, 7) to describe the steps in the investment manager selection process, and 8) to describe the conditions for selecting, reviewing and/or terminating an investment manager.

The strategy of the Investment Program is to:

- achieve a total rate of return that will allow the Community Foundation for Southwest Washington (Foundation) to respond to today’s needs, and
- assure the long-term growth necessary to respond to future needs.

Achieving this goal involves the careful management of permanent and nonpermanent funds to sustain an effective grant-making program. The investment strategies for permanent and nonpermanent funds are distinct because the Foundation and its donors seek to achieve different distribution goals with each category of funds.

Authority

The Board of Directors of the Foundation has full authority for all activities relating to the fiduciary actions of the Foundation. The Board of Directors has delegated to the Finance Committee the responsibility of developing an investment policy. The Board has authorized investment policy implementation to be done by the Investment Committee, which is accountable through the Finance Committee, to the full Board.

Investment Objectives for long term and short term funds

The Community Foundation has both long term and short-term investment goals. The long term and short-term investment goals are part of dividing of investment assets into categories, identified as ‘pools.’ Furthermore, the Foundation has adopted a Strategic Asset Allocation Plan including asset allocation objectives for each “pool”. The Foundation defines the characteristics of each investment category below:

INVESTMENT CATEGORIES

Capital Preservation Pool -

Purpose of Investment: This investment pool is designed for risk intolerant accounts as well as, accounts seeking near term liquidity. The fund should provide high current income without undue risk to principal through a diversified, actively managed fixed income portfolio. The expected duration of the portfolio will average 1-½ years, with durations of 1 to 3 years possible at times. Average credit quality will be investment grade. The fixed income portfolio will be comprised of money market instruments, U.S. Government and Agency bonds, mortgage-backed securities, and corporate bonds. Foreign holdings and corporate securities less than investment grade cannot exceed 20% of the portfolio value. Capital preservation as well as liquidity is of prime importance. This pool does not provide for long-term growth, nor is it designed to outpace inflation.

Asset Allocation for Capital Preservation Pool

	<u>Objective</u>	<u>Minimum</u>	<u>Maximum</u>
Fixed Income			
Low Duration	100%	50%	100%
Cash	0%	0%	50%

The performance measurement and benchmark is the Lehman Brothers 1 to 3 Year Gov't/Credit Index.

Moderate Growth Pool -

Purpose of Investment: Funds using this pool would typically distribute approximately 5% of fund value annually, but may require near term liquidity. This investment pool should provide for some growth. Funds in this pool will be invested in readily marketable actively managed equity/bond fund(s) with the goal of providing less volatility than an all equity portfolio. Foreign holdings and corporate securities less than investment grade cannot exceed 25% of the portfolio value.

Asset Allocation for Moderate Growth Pool

	<u>Objective</u>	<u>Minimum</u>	<u>Maximum</u>
Fixed Income	50%	30%	60%
Total Equity	50%	40%	70%
Cash	0%	0%	30%

The performance measurement and benchmark is the U.S. Balanced Index.

Long Term Growth Pool -

Purpose of Investment: Funds using this pool would typically distribute approximately 5% of fund value, annually. This pool is designed for long-term growth. Capital appreciation is the priority. There is acceptance of volatility, and risk tolerance.

The performance measurement and benchmarks for this pool is a custom benchmark, reflecting the percentage of asset classes selected by the Investment Committee.

Unlike the other pools, the long-term growth pool may invest in limited partnerships and alternative assets to enhance investment performance and lower volatility.

Asset Allocation for Long-term Growth Pool

	<u>Objective</u>	<u>Minimum</u>	<u>Maximum</u>
Cash and Bonds	20%	15%	25%
Absolute Return	15%	5%	25%
Global Equity	45%	35%	55%
Alternative Assets	20%	15%	25%
Long-Short Growth/			
Spec Opps	15%	5%	25%
Private Equity	5%	0%	15%

Investment Classes

Benchmarks

FIXED INCOME

- **CORE BONDS** Provide capital appreciation and income through a diversified, actively-managed fixed-income portfolio. The expected duration for this fund would be more than three years longer or shorter than the duration of the Lehman Brothers Aggregate Bond Index. Average credit quality would be investment grade and up. Foreign holdings may be included as well as corporate securities less than investment grade. Lehman Brothers
Aggregate Bond Index

- **LOW DURATION** Provide interest income through a diversified, actively managed fixed income portfolio. The expected duration of this fund would be less than three years. Average credit quality would be investment grade and up. Foreign holdings as well as less than investment grade securities should be discouraged. Lehman Brothers 1 to 3
Gov't/Credit Index

- **U.S. FIXED HIGH YIELD** Provide high current income and capital appreciation through a diversified, actively managed portfolio of non-investment grade high yield fixed income securities. Lehman Bros. High Yield
Index

- **ABSOLUTE RETURN HEDGE** Provide long-term capital appreciation consistent with capital preservation by investing in diversified portfolios of long and short positions. The strategies to be used are defensive so as to mitigate overall portfolio risk. 90-day T-Bills+5%

TOTAL EQUITY

- **GLOBAL STOCK** This category encompasses all traditional equity investments – Domestic and International. We look at equity markets in a global context, and we therefore have a roughly 50/50 allocation to domestic/international stocks, in line with the global market capitalization breakdown of 45% United States/55% International. Investments will be allocated among larger and smaller market capitalizations both domestically and internationally MSCI ACWI

- **LARGE CAP EQUITY** Provide long-term capital appreciation through a diversified, actively-managed common stock portfolio with an average market capitalization greater than \$10 billion. Stocks of foreign companies that are traded in the US as well as REITS (real estate investment trusts) may also be included in the portfolio, each not to exceed 20% of the large cap stock portfolio. S&P 500 Index

- **SMALL/MID CAP EQUITY** Provide long-term capital appreciation through a diversified, actively-managed common stock portfolio investing in companies with an average market capitalization between \$500 million and \$5 billion. Stocks of foreign companies that are traded in the US as well as REITS (real estate investment trusts) may also be included in the portfolio, each not exceed 20% of the small/mid cap stock portfolio. Russell 2000 Index

- **INTERNATIONAL EQUITY – DEVELOPED** Provide long-term capital appreciation through a diversified actively-managed portfolio of international equities. Stocks of emerging countries may be used at the discretion of the manager, but such use is not to exceed one-third of the international stock portfolio. MSCI ACWI
Free ex-US Index

- **INTERNATIONAL EQUITY – EMERGING** Provide long-term capital appreciation through a diversified actively-managed portfolio of stocks of companies in emerging international markets. MSCI EMF Index

ALTERNATIVE ASSETS

LONG/SHORT GROWTH & SPECIAL OPPORTUNITIES

Provide long-term capital appreciation and superior risk/return characteristics by investing in hedge funds employing various strategies, or by investing in a strategy that provides a compelling opportunity in the current market environment. Return characteristics should be enhanced by the hedge funds ability to hedge positions and exposures, use leverage and exploit inefficiencies. Market opportunities may only present themselves for a defined period of time and may, due to their specificity, demonstrate additional volatility.

*Alternative investments vary considerably within each asset class. Return assumptions will vary depending on specific characteristics of the investment vehicle under consideration.

Standard & Poor's 500
Allocation assumptions,
Absolute,
HFR Indices,
Relative Indices

PRIVATE EQUITY

Provide superior returns by investing in privately negotiated equity or equity like securities of companies with significant potential for growth and price appreciation. The time horizon for individual funds may be ten years or longer.

Venture Economics
Annual Report,
Vintage Year Comparison,
Allocation
Assumptions,
Absolute

Monitoring and Review of Invested Assets

Each quarter the Investment Committee will review the investment managers' progress in meeting the Foundation's investment goals.

The Investment Committee expects the fund managers performance to be within top one-half among same style peers (for example, large cap growth) and better relative to a predetermined benchmark index, net of advisory fees and other costs over a market cycle or trailing three-year period, whichever is greater.

Investment Guidelines

The Board of Directors has approved the Investment Policy and the asset allocation limits for each investment category for each of the three pools.

- The Investment Committee will determine which money managers or investment vehicles are best suited to meet each pool's objectives as laid out in the policy. Deviations of less than 5% of the minimum or maximum band of the approved policy should be rebalanced back to target allocation, optimally through cash flow adjustments. Deviations more than 5% shall require action by the Investment Committee, within 30 days of a quarterly review.
- No more than 25% of the net asset value of all the pools may be invested in any one fund or any one-fund family.
- No more than 25% of the Long-term Growth pool may be invested in security products that have less than semi-annual liquidity.
- Fund managers must comply with all applicable laws, rules, and regulations.
- Fund managers will determine the appropriate securities exchange or service to use in the trading of securities. Fund managers are responsible for the quality of trade executions. Fund managers are also responsible for ensuring the exchanges or services they use are fit to clear such transactions without risk of loss.
- All assets must have readily ascertainable market values and be easily marketable, with the exception of alternative assets and preservation hedge products.
- Every fund manager's portfolio must be adequately diversified to reduce risk and comply with current regulations, including the SEC's Prudent Expert Rule. The interpretation of "adequate" diversification will be left to individual fund managers, but portfolio diversification should be part of the Investment Committee's regular review.
- Compliance with the Investment Advisory Agreement, or in the case of mutual funds the Prospectus, and this Policy Statement is essential and will be monitored regularly by the Investment Committee.
 - Fund manager investment philosophy, style and strategy shall remain consistent and shall not change materially without knowledge of the Investment Committee.
 - Sector and security selection, timing of purchase and sales are delegated to the fund manager.

- Performance results will be evaluated using comparisons with the guidelines, pertinent market indices and other active fund managers. Interim deposits and withdrawals should be considered when calculating rates of return on investment. Performance trends based on long-term as well as short-term returns will also be reviewed and evaluated.
- Transactions shall be executed at competitive costs and will be monitored periodically by the Investment Committee.
- Periodic meetings with fund managers by the investment consultant and/or their representatives are desirable.
- Asset classes that are not outlined must be presented by the Finance Committee to the full Board for approval before purchase.

Investment Consultants

The Investment Committee may determine the need to utilize the services of an investment consultant, and/or representative manager. The committee will exercise due diligence in selecting the consultant to quality expertise, experience, and full disclosure of any relationship the consultant would have with other fund managers/financial institutions. Any investment consultant selected must demonstrate that their performance is within the top one-half of their peers of a trailing three years period.

Investment Committee shall communicate to the investment consultant both the services expected from the consultant and the level of detail expected from the consultant.

Fund Manager Selection

Prior to considering hiring a new fund manager, the Foundation's investment consultant will carefully define for the committee the niche to be filled and the performance, quality, and characteristics required. At a minimum, fund managers under consideration should demonstrate they have met those performance and risk characteristics criteria under live, not modeled, conditions and over an appropriate time period.

Fund Manager Termination

Generally, all fund managers are expected to perform as well as or better than their prescribed performance benchmarks, net of fees. Furthermore, any violation in our said policy would require the Fund Manager to be put on an immediate review or "watch" status. In any case, the Foundation reserves the right to terminate a fund manager's relationship for any reason. Once the decision to terminate a fund manager is made, asset transfer and liquidation should be handled to the best advantage of the Foundation.

**Partnership Policy –
Community Foundation assets managed outside
the investment pools
(Appendix A)**

Financial institutions often have a unique role in assisting potential donors to choose the Foundation for their charitable giving. Financial institutions include certified financial planners, brokers, investment advisors, and banks.

The Partnership Policy explains the conditions under which the Community Foundation for Southwest Washington may enter into investment partnerships with local financial institutions. The following is the list of conditions, which shall apply for Community Foundation assets to be managed outside its pool of funds, under the adopted asset allocation policy.

1. The funds under consideration must be new money to the Community Foundation. As such, the new money may be received from an existing donor to add to an existing fund or to create a new fund. Future gifts from the donor may go into the Community Foundation's pooled investment fund or into the donor's existing Community Foundation non-pooled fund.
 2. The charitable asset would become an asset of the Community Foundation, and be under the control of the Foundation's Board of Directors.
 3. The Community Foundation would retain the financial institution as a fund manager over the specific asset. The financial institution must comply with the Community Foundation Investment Guidelines.
 4. The financial institution would be subject to quarterly and annual reviews by the Investment Committee, as with all other fund managers.
 5. The Community Foundation and financial institution would enter into an agreement, covering ongoing management, fees, and other pertinent information.
 6. A minimum of \$200,000 would be required to establish this kind of arrangement.
 7. All activity within the fund (earnings, dividends, gains/losses) would be separately posted to the donor's fund. It would not share in the investment activity of the pool. A separate accounting arrangement would be established to track activity in the fund.
- *Note - Life income gifts (annuities and charitable remainder trusts) should be managed similarly to the Long-term Growth Pool with the exception that charitable remainder trust accounts may not hold any business income generating assets.)*

Glossary
(Appendix B)

The following is a list of terms and their definitions:

Asset Allocation – The process of dividing investments among different kinds of assets, such as stocks, bonds, real estate and cash, to optimize the risk/reward tradeoff based on an individual's or institution's specific situation and goals. A key concept in financial planning and money management.

Asset Class – A type of investment, such as stocks, bonds, real estate, or cash.

Category (or Pooled Fund) – Any fund in which multiple investors contribute assets and hold them as a group. A common example of a pooled fund is a unit trust.

Endowment – A permanent fund bestowed upon an individual or institution, such as a university museum, hospital, or foundation, to be used for a specific purpose.

Fund manager – The person(s) responsible for the overall strategy and the specific buying and selling decisions for a mutual fund (called a fund manager) or other financial institution (called a money manager).

Investment Advisory Agreement – A statement prepared by the fund manager explaining his/her investment philosophy for the fund's management.

Investment consultant – A person or organization retained to provide investment advice. Also called financial advisor or investment advisor or investment counsel.

Non-permanent Fund – A fund held by the Community Foundation managed for eventual complete distribution.

Permanent Fund – A fund held by the Community Foundation managed for perpetual giving.

Watch status - When a fund manager is in violation of this policy, had a major change in management or has failed to perform satisfactorily the fund will be put on watch and reviewed for possible termination.